

**SPRINGVALE-BEAR CREEK
SEWAGE DISPOSAL AUTHORITY**

FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Springvale-Bear Creek Sewage Disp. Auth.	County Emmet
Fiscal Year End December 31, 2006	Opinion Date June 22, 2007	Date Audit Report Submitted to State June 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

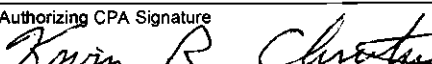
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) SMOLINSKI & CHRISTMAN, P.C.		Telephone Number 231-347-5555		
Street Address 555 MICHIGAN STREET		City PETOSKEY	State MI	Zip 49770
Authorizing CPA Signature 		Printed Name KEVIN R. CHRISTMAN		License Number A257282

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS:	
STATEMENTS OF NET ASSETS	6
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-14
ADDITIONAL INFORMATION:	
SCHEDULES OF REPAIR AND REPLACEMENT ACTIVITY	15
SCHEDULE OF INDEBTEDNESS	16

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June 22, 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Springvale-Bear Creek Sewage Disposal Authority:

We have audited the financial statements of the Springvale-Bear Creek Sewage Disposal Authority as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Springvale-Bear Creek Sewage Disposal Authority as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
June 22, 2007

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christman, P.C.

SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2006 and 2005

This section of the Springvale-Bear Creek Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the years ended December 31, 2006 and 2005. It should be read in conjunction with the Authority's financial statements which immediately follow.

FACILITY AND OPERATIONS

The Springvale-Bear Creek Sewage Disposal Authority was created for the purpose, of acquiring, constructing, financing and operating a sewage collection system for Springvale and Bear Creek townships. The Authority is an incorporated intramunicipality founded in 1973 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of five members, three from Bear Creek Township and two from Springvale Township.

The Authority has entered into agreements with the City of Petoskey and the Harbor Springs Area Sewage Disposal Authority to receive, transport, treat and dispose of the sewage from the Authority collection system.

SOURCES OF REVENUE

The Authority derives its revenue from charges to each Township for operation of the sewage collection system. Sewerage rates are set at a level to provide for all operating costs, including billings from the City of Petoskey and Harbor Springs Area Sewage Disposal Authority for transportation, treatment and disposal services. The Authority also derives revenue to provide for an accumulation of funds for system and equipment repair and replacement.

FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2006 and 2005

CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 97,606	\$ 117,844
Restricted and designated assets	1,608,242	1,683,833
Capital assets	4,089,906	4,331,715
Other assets	<u>9,898</u>	<u>14,847</u>
Total assets	<u>\$5,805,652</u>	<u>\$6,148,239</u>
Current liabilities	\$ 99,990	\$ 157,147
Current liabilities payable from restricted assets	87,492	80,717
Long-term liabilities payable from restricted assets	<u>1,362,600</u>	<u>1,447,900</u>
Total liabilities	<u>\$1,550,082</u>	<u>\$1,685,764</u>
Investment in capital assets	\$4,089,906	\$4,331,715
Restricted for debt retirement	40,616	38,963
Unrestricted	<u>125,048</u>	<u>91,797</u>
Total net assets	<u>\$4,255,570</u>	<u>\$4,462,475</u>

The following table indicates that operating expenses exceeded operating revenues, excluding depreciation and amortization for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show operating losses in future years because a majority of the depreciation and amortization expense relates to the sewer collection system and the investment in sewage treatment plant capacity.

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 545,957	\$ 562,174
Operating expenses:		
Pumping	520,713	512,592
General and administrative	<u>25,738</u>	<u>49,589</u>
Total operating expenses	<u>546,451</u>	<u>562,181</u>
Operating loss before depreciation and amortization	(494)	(7)
Depreciation and amortization expense	<u>241,809</u>	<u>241,700</u>
Operating loss	(242,303)	(241,707)
Non-operating revenues and expenses (net)	<u>35,398</u>	<u>(8,721)</u>
Net loss	<u>\$(206,905)</u>	<u>\$(250,428)</u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2006 and 2005

CONDENSED FINANCIAL INFORMATION (Continued)

Operating revenues for the year decreased approximately \$16,000 from prior year. The decrease in revenues corresponds with a net decrease in operating costs that are billed to the Townships. The net decrease consisted of an increase in pumping expenses of approximately \$8,000 and a decrease in general and administrative expenses of approximately \$24,000 from the prior year. The decrease in general and administrative expenses is mainly from fewer legal expenses during the year.

CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes several years ago. The Authority used approximately \$2,300 and \$48,000 of these funds for system upgrades, equipment and repairs in 2006 and 2005, respectively. Revenues for this purpose are billed annually and totaled \$37,416 in 2006 and \$33,528 in 2005. The total amount available for repair and replacement at December 31, 2006 and 2005 was \$96,387 and \$59,106, respectively.

DEBT STRUCTURE

The Authority has one outstanding bond issue at December 31, 2006 and 2005 totaling \$225,000 and \$290,000, respectively. Also, the Authority has an outstanding liability for 16.8 percent of the \$7,500,000 City of Petoskey bond issue in 2001 for expansion of the City's facilities. The total liability amount at December 31, 2006 was \$1,219,400 and at December 31, 2005 it was \$1,231,300.

The Authority's contractual agreements with the townships require them to reimburse the Authority for all principal and interest costs associated with the bond issue and the liability due to the City of Petoskey.

CONTACTING THE AUTHORITY'S MANAGEMENT

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations and physical assets. Questions concerning this report or requests for additional information should be addressed to the Board Chairman, 373 North Division Road, Petoskey, Michigan 49770.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF NET ASSETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 36,589	\$ 36,800
Accounts receivable	41,626	34,414
Due from the City of Petoskey	-	25,883
Due from Harbor Springs Area Sewage Disposal Authority	19,391	20,747
Total current assets	97,606	117,844
RESTRICTED AND DESIGNATED ASSETS:		
Restricted assets, debt retirement	1,491,108	1,567,980
Designated assets, repair and replacement	117,134	115,853
Total restricted and designated assets	1,608,242	1,683,833
CAPITAL ASSETS, net of accumulated depreciation	4,089,906	4,331,715
OTHER ASSETS, unamortized bond expenses	9,898	14,847
Total assets	<u>\$ 5,805,652</u>	<u>\$ 6,148,239</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 59,852	\$ 53,770
Due to Bear Creek Township	40,138	46,630
Due to Harbor Springs Area Sewage Disposal Authority for repair and replacement	-	56,747
Total current liabilities	99,990	157,147
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	5,692	7,317
Long-term debt due within one year	65,000	65,000
Due to City of Petoskey within one year	16,800	8,400
Total current liabilities payable from restricted assets	87,492	80,717
LONG-TERM LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Long-term debt, net of current portion	160,000	225,000
Due to City of Petoskey, net of current portion	1,202,600	1,222,900
Total long-term liabilities	1,362,600	1,447,900
Total liabilities	1,550,082	1,685,764
NET ASSETS:		
Investment in capital assets	4,089,906	4,331,715
Restricted for debt retirement	40,616	38,963
Unrestricted	125,048	91,797
Total net assets	4,255,570	4,462,475
Total liabilities and net assets	<u>\$ 5,805,652</u>	<u>\$ 6,148,239</u>

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES	\$ 545,957	\$ 562,174
OPERATING EXPENSES:		
Pumping	520,713	512,592
General and administrative:		
Legal and accounting	16,586	41,828
Insurance	8,876	7,570
Miscellaneous	276	191
Total operating expenses	546,451	562,181
Operating loss before depreciation and amortization	(494)	(7)
Depreciation and amortization expense	241,809	241,700
Operating loss	(242,303)	(241,707)
NON-OPERATING REVENUES (EXPENSES):		
Contribution by local units to defray		
interest expense and bond fee	18,688	23,625
Repair and replacement income	37,416	33,528
Interest income	5,208	4,141
Interest expense and bond fee	(18,688)	(23,625)
Repair and replacement expense	(2,277)	(41,441)
Amortization, bond expenses	(4,949)	(4,949)
Total non-operating revenues (expenses)	35,398	(8,721)
Net loss	(206,905)	(250,428)
NET ASSETS, Beginning of year	4,462,475	4,712,903
NET ASSETS, End of year	\$ 4,255,570	\$ 4,462,475

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Fees and services	\$ 565,660	\$ 616,445
Payments for goods and services	(546,861)	(608,516)
Net cash provided by operating activities	18,799	7,929
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY:		
Repair and replacement income	37,416	33,528
Repair and replacement expense	(43,328)	(390)
Net cash provided by (used in) noncapital financing activities	(5,912)	33,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Received from townships for bond retirement and liability payments	76,900	78,400
Contribution by townships to defray interest and bond fee expenses	20,313	25,375
Retirement of long-term debt	(65,000)	(70,000)
Payments on long-term liability	(11,900)	(8,400)
Interest and bond fee expense	(20,313)	(25,375)
Net cash used in capital and related financing activities	-	-
INVESTING ACTIVITIES:		
Acquisition of fixed assets	(6,500)	-
Purchase of certificates of deposit	(80,243)	(38,955)
Redemption of certificates of deposit	78,625	58,260
Interest earned	5,208	4,141
Net cash provided by (used in) investing activities	(2,910)	23,446
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,977	64,513
CASH AND CASH EQUIVALENTS, Beginning of year	143,465	78,952
CASH AND CASH EQUIVALENTS, End of year	\$ 153,442	\$ 143,465
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Unrestricted	\$ 36,589	\$ 36,800
Restricted for debt retirement	43	8
Designated for repair and replacement	116,810	106,657
Total cash and cash equivalents	\$ 153,442	\$ 143,465
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (242,303)	\$ (241,707)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	241,809	241,700
Decrease in accounts receivable, due from the City of Petoskey and due from (to) Harbor Springs Area Sewage Disposal Authority	19,703	54,271
Decrease in accounts payable and due to Bear Creek Township	(410)	(46,335)
Net cash provided by operating activities	\$ 18,799	\$ 7,929
NON-CASH INVESTING ACTIVITIES:		
Fixed asset purchase in accounts payable and due to Harbor Springs Area Sewage Disposal Authority	\$ -	6,500

The accompanying notes are a part of the financial statements.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE A - NATURE OF ENTITY:

The Springvale-Bear Creek Sewage Disposal Authority (the Authority) was created as a corporate instrumentality in 1973 by agreement between the Townships of Springvale and Bear Creek, Emmet County, under provisions of Act 233, Michigan Public Acts of 1955, as amended, for the purpose of acquiring, constructing, financing and operating a sewage collection system to serve the two Townships.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Operating Revenue

The Authority derives its revenue from charges to each Township for operation of the sewage collection system. Sewerage rates are set at a level to provide for all operating costs, including billings from the City of Petoskey and Harbor Springs Area Sewage Disposal Authority for transportation, treatment and disposal services, and to provide for an accumulation of funds for eventual replacement of the system and equipment.

Each Township is responsible for billing sewage customers located within its boundaries.

Capital Assets

Land, sewage collection system and other fixed assets are recorded at cost. The system is being depreciated under the straight-line method over its estimated useful life of 40 years while the equipment is being depreciated over its shorter estimated useful life.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The investment in capacity of sewage treatment plant represent payments to the City of Petoskey to assure the availability of capacity at the Petoskey sewage treatment plant. This asset is amortized under the straight-line method. The 1977 investment is amortized over the period of the time of the Authority's agreement with the City. The 2001 investment is amortized over the estimated useful life of the system additions. The following are the amortization periods for the investment:

	<u>Amortization Period</u>
1977 investment	37 years
2001 investment	25 years

Provisions for depreciation of \$187,799 and amortization of \$54,010 totaling \$241,809 in 2006 and depreciation of \$187,690 and amortization of \$54,010 totaling \$241,700 in 2005 have been recorded in the statements of revenue, expenses and changes in net assets.

Cash and Cash Equivalents

The Authority considers certificates of deposit with maturity dates of three months or less at the date of purchase to be cash equivalents.

Other Assets

Bond expenses are being amortized under the straight-line method over the term of the bonds. The statements of revenues, expenses, and changes in net assets reflects \$4,949 for amortization of bond expense in 2006 and 2005.

Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

City of Petoskey Agreement

Th Authority has an agreement with the City of Petoskey to receive, transport, treat and dispose of the Authority's wastewater at the City's treatment facility. The agreement stipulates that the Authority shall participate and pay 16.8 percent of any future additions to the facility. The City incurred \$7,500,000 of debt on June 1, 2001 to finance a facility expansion. The balance sheet at December 31, 2006 and 2005, reflects a liability of \$1,219,400 and \$1,231,300, respectively, and an intangible asset net of accumulated amortization of \$1,108,800 as of December 31, 2006 and \$1,159,200 as of December 31, 2005 for the Authority's share of the total cost. The Authority reimburses the City for its share of the bond principal and interest cost in accordance with the City's bond payment requirements. The interest portion of the reimbursement is included in pumping expense as an operating expense. A total of \$58,440 and \$58,614 of interest expense was reimbursed for the years ended December 31, 2006 and 2005, respectively, and is included in operating expenses. The reimbursement of bond principal, amounted to \$11,900 for the year ended December 31, 2006 and \$8,400 for the year ended December 31, 2005.



SPRINVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions for Debt Retirement

Amounts due from participating local governmental units to pay outstanding bond principal are recorded as receivables on the balance sheet. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the contract payments, the Townships are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray interest and bond costs are recorded as other income. Any interest payments due from the Townships at year end are recorded as interest receivable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE C - CREDIT RISK:

The Authority maintains its checking accounts, savings accounts and certificates of deposit with financial institutions that insure cash balances of up to \$100,000 through the Federal Deposit Insurance Corporation. The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Bank balance	\$237,310	\$228,466
Insured by Federal Deposit Insurance Corporation	<u>228,218</u>	<u>213,369</u>
Uninsured and uncollateralized balance	<u>\$ 9,092</u>	<u>\$ 15,097</u>

Michigan Compiled Laws, Section 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan association which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's deposits are in accordance with statutory authority.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE D - RESTRICTED ASSETS:

Under terms of a contractual agreement between the Authority and the Townships of Springvale and Bear Creek, the Townships have agreed to reimburse the Authority for all debt service costs associated with the Authority's refunding bond issue and the liability to the City of Petoskey for its share of the City's bond issue. All payments received for debt service costs are required to be restricted for debt retirement.

The reimbursement for the refunding bond debt service costs is required to be paid by March 1 and September 1 in an amount equal to bond principal, interest and bond paying agent fees payable on that date. The reimbursement is apportioned 5 percent to Springvale township and 95 to Bear Creek Township.

The reimbursement for the City of Petoskey is apportioned 100 percent to Bear Creek Township. The annual debt service costs are billed monthly to the Authority by the City and are included by the Authority in its monthly billing to the Township.

Each Township has pledged its full faith and credit and an amount not exceeding 25 percent of the monies each receives annually as a return of state sales tax for payment of all debt service costs. In addition, each Township has agreed, if necessary, to include in its annual property tax levy an amount sufficient to make the stipulated payments.

The following is a summary of the assets that are restricted for debt retirement at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Cash	\$ 43	\$ 8
Certificate of deposit	40,573	38,955
Receivable from local government units for:		
Accrued bond interest and expenses	6,092	7,717
Bond principal repayment	225,000	290,000
Due to City of Petoskey	<u>1,219,400</u>	<u>1,231,300</u>
Total	<u>\$1,491,108</u>	<u>\$1,567,980</u>

NOTE E - DESIGNATED ASSETS:

The following is a summary of assets that are designated for repair and replacement at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Cash	\$116,810	\$106,657
Receivable	<u>324</u>	<u>9,196</u>
Total	<u>\$117,134</u>	<u>\$115,853</u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE F - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2006, is as follows:

	Balance <u>January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2006</u>
Land and land rights	\$ 124,149	\$ -	\$ -	\$ 124,149
Sewage utility plant and collection system	7,427,025	-	-	7,427,025
Investment in capacity of sewage treatment plant	1,394,473	-	-	1,394,473
Spare motor	11,538	-	-	11,538
Transportation, shop and office equipment	<u>67,292</u>	<u>-</u>	<u>-</u>	<u>67,292</u>
Total	9,024,477	-	-	9,024,477
Accumulated depreciation	<u>4,692,762</u>	<u>241,809</u>	<u>-</u>	<u>4,934,571</u>
Capital assets, net	<u><u>\$4,331,715</u></u>	<u><u>\$(241,809)</u></u>	<u><u>\$ -</u></u>	<u><u>\$4,089,906</u></u>

NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the year ended December 31, 2006:

	Balance <u>January 1, 2006</u>	<u>Retirements</u>	Balance <u>December 31, 2006</u>
Series 1989 Refunding Bonds	<u>\$290,000</u>	<u>\$ 65,000</u>	<u>\$225,000</u>

Long-term debt consists of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
\$1,310,000 Series 1989 Refunding Bonds due in annual installments of \$65,000 to \$95,000 plus interest of 7.500 to 7.625 percent. The bonds mature on March 1, 2009.	<u>\$225,000</u>	<u>\$290,000</u>

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments of \$27,981, are as follows:

<u>Year ending December 31,</u>	
2007	\$ 79,637
2008	74,722
2009	<u>98,622</u>
Total	<u><u>\$252,981</u></u>

Payment of bond principal, interest and service costs are provided, under the terms of contractual agreements, with the local governmental units, as explained in Note D.



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

NOTE H - UNRESTRICTED NET ASSETS:

The following is a summary of unrestricted net assets at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Designated by Board of Trustees for future repair and replacement	\$ 96,387	\$ 59,106
Undesignated	<u>28,711</u>	<u>32,691</u>
Total unrestricted net assets	<u>\$125,098</u>	<u>\$ 91,797</u>

NOTE I - PRIOR PERIOD ADJUSTMENT:

The Authority had not recorded net assets restricted for debt retirement at December 31, 2005. Accordingly, the Statement of Net Assets at December 31, 2005 reflects a change to reclassify \$38,963 of unrestricted net assets to restricted for debt retirement and decrease the balance in unrestricted net assets from \$130,760 to \$91,797.

NOTE J - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The Authority carries commercial insurance to cover its risk of loss.

10

SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
SCHEDULES OF REPAIR AND REPLACEMENT ACTIVITY
for the years ended December 31, 2006 and 2005

	2006	2005
BALANCE, beginning of year	\$ 59,106	\$ 71,142
ADDITIONS:		
Billings	37,416	33,528
Interest income	2,142	2,377
	<u>98,664</u>	<u>107,047</u>
REDUCTIONS:		
Repairs, net of insurance proceeds	(2,277)	(41,441)
Capital asset costs	-	(6,500)
	<u> </u>	<u> </u>
BALANCE, end of year	<u>\$ 96,387</u>	<u>\$ 59,106</u>
BALANCE CONSISTS OF THE FOLLOWING:		
Designated assets	\$ 117,134	\$ 115,853
Due to Harbor Springs Area Sewage Disposal Authority	-	(56,747)
Due to Bear Creek Township	(20,747)	-
	<u> </u>	<u> </u>
Net balance	<u>\$ 96,387</u>	<u>\$ 59,106</u>



SPRINGVALE-BEAR CREEK SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF INDEBTEDNESS
December 31, 2006

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity March 1	Total Principal Outstanding	Annual Interest Payable
Project No. 1						
Refunding Bonds	March 1, 1989	\$1,310,000	7.500	2007	\$ 65,000	\$ 14,637
			7.625	2008	65,000	9,722
			7.625	2009	95,000	3,622
					<u>\$ 225,000</u>	<u>\$ 27,981</u>

NOTE: The Bonds are subject to early redemption at the option of and in the order determined by the Authority on any interest payment date. There is no premium for early redemption.

